

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

Investigation by the Department of)	
Telecommunications and Energy on)	D.T.E. 02-40
Its Own Motion into the Provision of)	
Default Service)	

COMMENTS OF DOMINION RETAIL, INC.

Dominion Retail, Inc. (“Dominion Retail”) hereby respectfully submits these comments concerning the provision of Default Service in Massachusetts pursuant to the order of the Department of Telecommunication and Energy (“DTE”) in its *Order Opening Investigation into the Provision of Default Service* (the “Order”), dated June 21, 2002, in the above-referenced docket.

Introduction

Dominion Retail is a licensed electric supplier in the Commonwealth of Massachusetts. As in other states in which it operates, Dominion Retail’s primary focus in Massachusetts is on the residential and small commercial electric choice market. Currently, Dominion serves approximately 21,000 residential and small commercial electricity customers in Massachusetts. Dominion to date has not experienced many issues with the current system of Default Service. The primary consumer complaint made to Dominion Retail by Default Service customers is that they are being treated differently than Standard Offer customers. Customers have also expressed confusion concerning the fixed/variable pricing adjustment feature.

Obviously, the large customer market is working efficiently and many customers are participating. The competition in that segment is robust and customers are getting competitive prices. However, by comparison, smaller customers have not been participating to a great extent in customer choice. Dominion Retail is not sure that the source of the problem relates directly to Default Service and its pricing. Rather, we believe it relates to customer knowledge, know-how, and enthusiasm. Dominion Retail is of the view that the DTE should find ways to get customers transitioned over to the competitive market and then Default Service will become “last resort” service.

Judging from Dominion Retail’s residential customer sales campaigns, we have observed the following conditions in the small customer market. There appears to be a genuine lack of awareness or interest in energy choice in this market segment. While we know the electric utilities have done a good job of educating consumers, Dominion Retail believes real experience is more valuable than information about choice. Suppliers’ brands are not widely recognized since very few suppliers participate in the small customer segment of the market. Customers seem to be confused by their bills – too many line items. Customers generally don’t know what price they are currently paying their utility. Dominion Retail has also experienced problems with the retroactive recalculation of the default charges for customers that switch during a six-month default period.

Why are these observations relevant? They are relevant because widespread customer participation in customer choice is not happening. And non-participation has little to do with dissatisfaction or concerns over Default Service. This is because Default

Service is generally accepted and customers don't have significant problems with Default Service.

The objective with any changes to Default Service should be to enhance, not detract from, the retail energy marketplace. Default Service should be viewed and priced as a "last resort" service versus "primary" service. This is consistent with the objective to create a competitive retail marketplace. While Dominion Retail can see other short-term objectives as a supplier to smaller customers (i.e. give the customer the absolute lowest price today), we think all the parties need to look more closely at finding ways to transition the market to a competitive marketplace that will provide competitive prices for most, if not all participants.

However, Dominion Retail is most disturbed by the proposals made by other parties that would turn Default Service into a long-term supply source for customers and basically abandon retail choice efforts. Dominion Retail does not think the DTE needs to make radical modifications to Default Service by making it a long-term supply source. We are concerned that such wholesale changes could seriously impede, or even put an end to, retail choice and retail choice suppliers in Massachusetts.

Dominion Retail is also concerned that regional (LMP) default pricing as it relates to congestion should not be imposed on the residential market. We believe that the use of regional default pricing for this market segment introduces an added level of complexity that is not needed and which has the potential to harm choice in the residential sector while still in its infancy.

For its part, Dominion Retail has two general suggestions that can be easily implemented:

1. Modify default pricing to include all costs related to bad debt, congestion costs, load uncertainty risk and eliminate fixed/variable adjustments for customers. Otherwise, leave Default Service as a last resort service.
2. Implement mechanisms to transition customers to the competitive marketplace so that Default Service in the future becomes “last resort” service. Start by the pilot test on a statewide basis the Massachusetts Electric Company’s Basic Service proposal to stimulate customer participation and retail competition.

1. Dominion Retail’s Proposed Limited Changes to Default Rate Pricing

In general, the Massachusetts electric market is working well. Dominion Retail believes the DTE has a model program that does not need to be overhauled. We believe that default pricing should be viewed as “last resort” pricing and the that the DTE must be careful not to over-engineer a program that is already running well.

In the interest of leveling the playing field, Dominion Retail suggests the following modifications: 1) add in the costs of bad debt, congestion costs, and load uncertainty costs, 2) stop recalculating customer bills when they switch to a supplier (this is a key element in properly incorporating load uncertainty costs in the Default Service pricing), and 3) leave the current system in place until 2005.

We see the following benefits from our proposed changes

- ✍✍Default prices that adequately reflect all of the costs of doing business.
- ✍✍By adding load uncertainty risks, suppliers will see a level playing field with Default Service and its pricing.
- ✍✍A lessening of customer confusion -- Recalculations cause customer confusion and customer distrust in energy choice. In addition, the recalculations are very difficult to explain to customers.
- ✍✍Not really a change since it leaves Default Service as “last resort” service.

Dominion believes these changes will help ensure the chances of customer participation in energy choice. The added costs of load uncertainty, bad debt, and congestion rightfully should be part of the Default Service pricing. These changes will place Default Service at minimum on a level playing field with supplier service, since suppliers bear those same costs.

2. **Dominion Retail Strongly supports Massachusetts Electric's Proposal as a Stimulant for Choice**

Dominion Retail believes that the DTE should focus on ways to enhance customer participation in choice with the objective of creating a fully competitive retail marketplace. To achieve greater customer participation, we encourage the DTE to implement the Massachusetts Electric pilot program for default customers, and potentially considered for other electric utilities in the state as well. Dominion Retail supports this test because we believe that customer experience through direct participation in choice programs will ultimately be the driver to create a fully competitive marketplace. Mechanisms should be created for transitioning from a regulated market to a competitive retail marketplace. Accordingly, Dominion Retail submits that pilot testing the Massachusetts Electric proposal would be beneficial for the following reasons:

- ✍✍ Prices will be competitive and transparent (can be easily compared to wholesale alternatives) -- the pilot is a low risk proposition for consumers. The customer groups will be competitively bid and consumers will achieve a competitive pricing for their electricity. Suppliers will have the incentive to participate in the competitive bidding process.
- ✍✍ Simple, less-expensive billing. Where the utility does the billing, consumers experience less disruption and thus a lesser negative reaction to their first experience with customer choice.

- ✍✍Customer involvement -- participation aids in the development of a competitive marketplace. Consumers will become familiar with other supplier brands and build confidence in trying new brands.
- ✍✍Limited customer acquisition costs – assignment lessens the initial participation costs for suppliers. Robust competition between suppliers attempting to serve the customer groupings benefits consumers.
- ✍✍Stable, longer term, market -based price for basic service for mass-market customers. Dominion Retail encourages the use of a stable price to help transition customers to choice. In our experience, we have found that smaller, mass-market customers like stable, competitive pricing.
- ✍✍Multiple suppliers – promotes customer trust in dealing with alternative suppliers.
- ✍✍The utility remains involved in the billing, collection and customer service processes for customer protection (if the pilot or a supplier fails then leaving the billing in place creates a backstop).
- ✍✍Reversible – if the pilot program does not prove to be successful, it can be revised, modified, or eliminated in 2005.
- ✍✍Potentially assigns customers to suppliers who own generation assets in NEPOOL. Migrating firm customers to suppliers with generation assets (firm supply) is an important outcome from customer choice.
- ✍✍Utilities who do not own generation assets may have the eventual opportunity to exit the merchant function.
- ✍✍Pricing design may create “headroom” to move customers to a retail contract.
- ✍✍Program can be applied to future Standard Offer customers.
- ✍✍Customers already under contracts with competitive suppliers would be eligible for the pilot program as soon as their existing contracts expire.

Some may argue that the pilot test discussed here is a bad idea for reasons including a concern that suppliers will not participate in sufficient numbers, or if they do are a risk to default on customer service obligations, or because pricing will not be truly

competitive. Dominion Retail's response to such concerns is to point out that, in its experience in other states, pilot test programs that include opt-out customer aggregation do in fact attract robust and broad participation from suppliers which leads to competitive and market-based pricing for consumers. Insofar as potential supplier default is concerned, appropriate DTE licensure and contractual mechanisms already exist to deal with this issue.

In conclusion, Dominion Retail does not believe the current Default Service pricing system is in need of wholesale reinvention. Targeted, careful adjustments to the system are the order of the day. To that end, Dominion Retail has proposed the modifications set forth in these comments and respectfully requests the DTE's careful consideration.

Respectfully submitted,

Gary A. Jeffries
Senior Counsel
Dominion Retail, Inc.
101 Pitt Street
Pittsburgh, PA 15221
412-473-4129
412-473-4170 (fax)

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CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing document and eight copies to Secretary Mary L. Cottrell, Department of Telecommunications and Energy, by overnight mail. I also served this filing via electronic mail to dte.efiling@state.ma.us, jeanne.voveris@state.mas.us and the parties listed on the electronic mail service list.

Dated at Pittsburgh, PA this 9th day of August, 2002.

Gary A. Jeffries